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An Audit Report on

Performance Measures at the Real Estate Commission

December 2007

Report No. 08-016



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Overall Conclusion

The Real Estate Commission (Commission) and the Appraiser Licensing and Certification Board (Board) did not report reliable results for all seven key performance measures tested for fiscal year 2006 and the first three quarters of fiscal year 2007. A performance measure result is considered reliable if it is certified or certified with qualification.

Factors prevented the certification of three of the seven key performance measures tested. Four key performance measures tested were inaccurate. The measures could not be certified because the Commission or Board did not:

- Follow the definition and the methodology defined in the Automated Budget and Evaluation System of Texas (ABEST) for calculating certain performance measures.
- Develop or update, document, and implement detailed policies and procedures for collecting, calculating, entering, and reporting data used for its performance measures.
- Conduct secondary reviews of the calculations before the results were submitted to the ABEST Coordinator.

As a result of these issues:

- The Commission lacked the documentation and controls necessary to allow auditors to re-create the results for three performance measures—Number of Complaints Resolved, Average Time for Complaint Resolution (Days), and Percent of Documented Complaints Resolved Within Six Months.
- The Commission had more than a 5 percent error rate in the sample of documentation tested by auditors for one measure—Average Licensing Cost per Individual License Issued.

Background

Agencies report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

The Real Estate Commission (Commission) and the Appraiser Licensing and Certification Board (Board) are appropriated funds and have performance measures set through the same agency. The Board is an independent subdivision of the Commission. The Commission provides administrative support to the Board under a memorandum of understanding that is approved by each of their respective governing boards. The Commission is responsible for reviewing and submitting the Board's performance measure results in ABEST.

- The actual results for three measures tested at the Board differed by more than 5 percent from the reported results—Percent of Documented Complaints Resolved Within Six Months, Number of Complaints Resolved, and Average Time for Complaint Resolution (Days).

Tables 1 and 2 summarize the results of the seven key performance measures tested.

Table 1

Real Estate Commission (Agency 329)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
A.1.1 Efficiency	Average Licensing Cost per Individual License Issued	2006	\$12.50	Inaccurate
		2007 - 1st quarter	\$16.71	
		2007 - 2nd quarter	\$11.78	
		2007 - 3rd quarter	\$10.45	
		2007 - Year to date ^b	\$12.88	
B. Outcome	Percent of Documented Complaints Resolved Within Six Months	2006	82.85%	Factors Prevented Certification
B.1.1 Output	Number of Complaints Resolved	2006	3,096	Factors Prevented Certification
		2007 - 1st quarter	624	
		2007 - 2nd quarter	660	
		2007 - 3rd quarter	586	
		2007 - Year to date ^b	1,870	
B.1.1 Efficiency	Average Time for Complaint Resolution (Days)	2006	130	Factors Prevented Certification
		2007 - 1st quarter	170	
		2007 - 2nd quarter	192	
		2007 - 3rd quarter	197	
		2007 - Year to date ^b	185	
<p>^a A measure is Certified if reported performance is accurate within 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A measure is Certified with Qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if the agency's calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported in ABEST and the correct performance measure result.</p> <p>A measure is Inaccurate when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported in ABEST and the correct performance measure result.</p> <p>A Factors Prevented Certification designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.</p>				
<p>^b Reported results from September 1, 2006, through May 31, 2007.</p>				

Table 2

Appraiser Licensing and Certification Board (Agency 329)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
D. Outcome	Percent of Documented Complaints Resolved Within Six Months	2006	48.81%	Inaccurate
D.2.1 Output	Number of Complaints Resolved	2006	127	Inaccurate
		2007 - 1st quarter	37	
		2007 - 2nd quarter	31	
		2007 - 3rd quarter	33	
		2007 - Year to date ^b	101	
D.2.1 Efficiency	Average Time for Complaint Resolution (Days)	2006	255	Inaccurate
		2007 - 1st quarter	322	
		2007 - 2nd quarter	202	
		2007 - 3rd quarter	291	
		2007 - Year to date ^b	275	
<p>^a A measure is Certified if reported performance is accurate within 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A measure is Certified with Qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if the agency's calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported in ABEST and the correct performance measure result.</p> <p>A measure is Inaccurate when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported in ABEST and the correct performance measure result.</p> <p>A Factors Prevented Certification designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.</p> <p>^b Reported results from September 1, 2006, through May 31, 2007.</p>				

Summary of Management's Response

The Commission and the Board agree with the recommendations in this report. The Commission's and the Board's responses to specific recommendations are presented in each chapter of the report, and their overall response to this report is presented in Appendix 2.

Summary of Information Technology Review

Auditors assessed general information technology (IT) controls and application controls over the Commission's licensing and enforcement system (the Texas Real Estate Licensing Information System, or TRELIS) used for performance measures data. The Commission has general IT controls, but it should consider strengthening certain areas, including logical access controls, program change controls, disaster recovery, and physical security.

TRELIS does not have adequate application controls to ensure the reliability and integrity of data used for calculating performance measures.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether the Commission, including the Board, (1) accurately reported selected key performance measures to ABEST and (2) has adequate control systems in place over the collection, calculation, and reporting of selected key performance measures.

The audit scope included (1) three key efficiency and two key output measures reported for fiscal year 2006 and for the first three quarters of fiscal year 2007 and (2) two key outcome measure reported for fiscal year 2006. Auditors also reviewed controls over the submission of data used in reporting the performance measure results.

The audit methodology consisted of selecting seven key measures to audit, auditing reported results for accuracy and adherence to measure definitions, evaluating controls over the performance measures, reviewing the performance measure process and related information systems, and conducting a high-level review of all information systems that support the performance measure data.

Auditors communicated details of IT weaknesses and other less significant issues separately to the Commission.

Contents

Detailed Results

Chapter 1	
The Real Estate Commission Did Not Report Reliable Results for the Four Key Performance Measures Tested	1
Chapter 2	
The Appraiser Licensing and Certification Board Did Not Report Reliable Results for the Three Key Performance Measures Tested	8
Chapter 3	
The Commission Should Improve Some Controls Over Its Licensing and Enforcement System and Other Automated Processes	13

Appendices

Appendix 1	
Objectives, Scope, and Methodology	15
Appendix 2	
Overall Management Response	17

Detailed Results

Chapter 1

The Real Estate Commission Did Not Report Reliable Results for the Four Key Performance Measures Tested

For the four performance measures tested, the Real Estate Commission (Commission) did not have sufficient controls to ensure its reported performance measure results were accurate.

Specifically, the Commission did not:

- Maintain updated policies and procedures for collecting, calculating, entering, and reporting data used for its performance measures.
- Conduct a secondary review of the calculations before the results were submitted to the ABEST Coordinator.

Recommendations

The Commission should:

- Develop and implement detailed, written policies and procedures for the data entry, calculation, and reporting of performance measures. All steps performed in the collection, calculation, review, and reporting of the performance measure data should be clearly documented.
- Implement a review process to verify the accuracy of the reported measure results before the information is reported to the ABEST Coordinator.

Management's Response

Management concurs. Management is committed to working promptly to develop the necessary documentation, reviewing its definitions and other critical assumptions with Governor's Office of Budget, Planning and Policy and LBB staff in the process to solicit input and obtain concurrence.

Key Measures

Number of Complaints Resolved

Results: Factors Prevented Certification

Factors prevent certification when (1) there is a deviation from the measure definition, (2) controls are not adequate to ensure accuracy, and (3) the auditor cannot determine the correct performance measure result.

Factors prevented the certification of this measure for fiscal year 2006 and the first three quarters of fiscal year 2007. The Commission deviated from the measure definition and methodology in ABEST by including complaints that were not resolved. In addition, controls were not adequate to ensure accurate calculation of the measure. Because of the lack of controls and the lack of documented procedures (noted above), auditors were unable to determine the correct performance measure result.

Measure deviations. The Commission deviated from the ABEST definition and methodology by counting several types of complaint cases that did not have final resolutions as “resolved complaints.” The Commission included at least three types of complaints in its measure results that should have been excluded, such as “request for more information” complaints, renumbered cases, and non-jurisdictional complaints. Specifically:

- The Commission included complaints in its measure results that were classified as “requests for more information.” A complaint is classified as a request for more information when the Commission’s Enforcement Division receives a complaint that does not contain sufficient information to allow the division to proceed with an investigation. The division sends a letter to the complainant requesting additional documentation. Once this letter is sent, the case is closed and the close date is entered into the automated system and backdated to the same date when the case was opened. While the Commission closed the complaint, it was not resolved.
- If the requested information is received by the Commission, the case is reopened with a new case number and a new open date. These cases are identified as “case renumbered.” By using a new case number for the original complaint, the Commission is double-counting this complaint as resolved when it closes its investigation of the renumbered case.
- Auditors also identified some closed, non-jurisdictional cases—complaints involving real estate professionals that do not violate the Real Estate Act, therefore the Commission has no authority to regulate them—that were included in the measure results. The ABEST definition for this measure specifically states that the Commission should exclude non-jurisdictional cases.

Auditors identified 845 complaints with these three complaint types that were included in the Commission’s performance measure results between September 1, 2005, and May 31, 2007. Those complaints represented 17

percent of all complaints that the Commission reported resolved during that period.

Calculation of the measure. Because of a lack of policies and procedures defining what constitutes a resolved complaint, auditors were unable to determine what types of cases should be included in the count of complaints resolved and, therefore, could not re-calculate the measure. ABEST states that the Commission should calculate this measure using data from its Texas Real Estate Licensing and Information System (TRELIS), which the Commission uses for licensing and enforcement. TRELIS generates an automated report that lists all cases closed during a specified time period. The Commission then manually calculates the performance measure result by subtracting certain types of cases using the case closing codes. Because the Commission (1) lacks policies and procedures, (2) lacks a complete and accurate automated report, and (3) manually calculates the measure, there is a greater risk of the Commission making calculation errors.

Additional control weaknesses. Testing of controls identified weaknesses in TRELIS and the Commission's complaint investigation process. For example, a complaint's open or close date documented in the complaint file did not always match the date entered into TRELIS.

Recommendations

The Commission should:

- Work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to revise and clarify the measure definition and methodology so that what constitutes a resolved complaint is defined and that the data source listed in ABEST aligns with the current operations of the Commission.
- Update the pre-defined automated reports generated by its licensing and enforcement system (TRELIS) to ensure that proper criteria are used to calculate the performance measure. Also, the Commission should calculate the measure result using the automated report generated by its automated system (TRELIS), rather than manually performing additional calculations.

Management's Response

TREC will work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to revise and clarify the measure definition and methodology. TREC was audited in 1998 by the SAO on the cases included in the calculation and the measure was certified. Internal audits have been conducted in the interim with comparable results. Therefore,

TREC has had no negative feedback on the process and the cases included in the measure until this recent audit.

TREC will update TRELIS reports to ensure that proper criteria are used to calculate the performance measure. TREC received funding for fiscal year 2009 to update the computer system. As the system is updated, TREC will automate reports that produce the measure result so that the calculation is not performed manually.

The Director of Enforcement and the Director of Technology Services will be responsible for implementing corrective action. Programming changes will begin once approval of the measure definitions and methodology is obtained from management and, to the extent appropriate, the proper oversight agencies.

Average Time for Complaint Resolution (Days)

Percent of Documented Complaints Resolved Within Six Months

Results: Factors Prevented Certification

Factors prevent certification when (1) there is a deviation from the measure definition, (2) controls are not adequate to ensure accuracy, and (3) the auditor cannot determine the correct performance measure result.

Factors prevented the certification of these two measures. The Commission did not consistently follow the methodology listed in ABEST to calculate the results for these two performance measures.

The number of complaints resolved (the denominator) for these two performance measures should be the figure that is reported for the performance measure Number of Complaints Resolved. For each reporting period that auditors reviewed, the number of complaints resolved that the Commission used to calculate the results for Average Time for Complaint Resolution (Days) and Percent of Documented Complaints Resolved Within Six Months did not match the number of complaints resolved that the Commission reported in ABEST for the Number of Complaints Resolved. Furthermore, the documentation provided by the Commission did not contain enough detail to allow auditors to re-calculate and verify the total number of calendar days per complaint resolved or the number of complaints resolved within a period of six months or less. As a result, auditors could not determine whether the numerators used by the Commission in its calculations were correct.

The documentation used for both measures is provided by an automated report generated by TRELIS. Because of these issues, as well as the potential inaccuracy of the reported results for the Number of Complaints Resolved (noted above), auditors were unable to determine the correct measure results. In addition, controls were not adequate to ensure the accuracy of the measures.

The ABEST methodology for calculating the Average Time for Complaint Resolution (Days) is not consistent with ABEST methodologies for calculating two other, related performance measures. The ABEST methodology for Average Time for Complaint Resolution (Days) does not exclude application inquiries and moral character determinations from the count of complaints resolved. However, the ABEST methodology for Number of Complaints Resolved and Percent of Documented Complaints Resolved Within Six Months does exclude these types of cases. The Commission excluded application inquiries and moral character determinations from its calculations for all three of these performance measures, and it should ensure that the ABEST methodologies for these measures align with its current operations.

Recommendations

The Commission should:

- Ensure that the number of complaints resolved used to calculate the results for Average Time for Complaint Resolution (Days) and Percent of Documented Complaints Resolved Within Six Months matches the number reported in ABEST for the Number of Complaints Resolved.
- Review the pre-defined automated reports to ensure the proper criteria are used to calculate performance measure. Consider producing detailed reports so that Commission staff can ensure the automated report is generating the correct results.
- Work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to revise and clarify the measures' definitions and methodologies. The methodology for the Average Time for Complaint Resolution (Days) should specifically exclude application inquiries and moral character determinations cases.

Management's Response

TREC will research to see that all data on which these reports are based is in keeping with the measure definition. TREC will also work with the oversight agencies to revise and clarify the measure definitions and methodologies.

The Director of Enforcement and the Director of Technology Services will be responsible for implementing corrective action. Programming changes will begin once approval of the measure definitions and methodology are approved by the proper oversight agencies.)

Average Licensing Cost per Individual License Issued

Results: Inaccurate

A measure is **Inaccurate** when there is more than a 5 percent error rate in the sample of documentation tested by auditors.

This measure was inaccurate because there was more than a 5 percent error rate in the sample of documentation tested by auditors. However, the reported results for this measure were within 5 percent of the correct result. The Commission used predefined reports generated by TRELIS that captured the wrong date field and included temporary licenses, which should be excluded according to the measure definition in ABEST.

Auditors identified the following errors among 61 new and renewed licenses tested for fiscal year 2006 and 61 licenses tested for the first three quarters of 2007:

- In fiscal year 2006, the date used to calculate the performance measure for 28 of 61 (46 percent) licenses tested did not match the date on which TRELIS issued the license. Auditors further tested those 28 licenses to determine if they were included in the correct quarter for performance measure results, and 2 of the 28 (7 percent) licenses should have been reported in different quarters.
- In fiscal year 2007, the date used to calculate the performance measure for 5 of 61 (8 percent) licenses tested did not match the date on which TRELIS issued the license. Auditors further tested those 5 licenses to determine whether they were included in the correct quarter for performance measure results, and 1 of the 5 (20 percent) licenses should have been reported in a different quarter.

Also, the Commission did not have adequate controls over the collection of data for and reporting of the measure results to ensure continued accuracy (noted above).

Recommendations

The Commission should:

- Update the predefined reports generated by TRELIS to ensure that the proper date and license types are used to calculate the performance measure.
- Work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to ensure that the measure definition and methodology aligns with the Commission's current operations.
- Implement controls over the collection of data for and reporting of the measure to ensure continued accuracy of reported results.

Management's Response

TREC will revise programming for the reports to ensure the appropriate dates and license types are used.

TREC will work with the oversight agencies to revise and clarify the measure definition.

TREC will implement controls over the data collection by providing secondary reviews of the calculations before the results are submitted to the ABEST Coordinator.

The Director of Licensing Services and the Director of Technology Services will be responsible for implementing corrective action. Programming changes will begin once approval of the measure definitions and methodology are approved by the proper oversight agencies.

The Appraiser Licensing and Certification Board Did Not Report Reliable Results for the Three Key Performance Measures Tested

For the three performance measures tested, the Appraiser Licensing and Certification Board (Board) did not have sufficient controls to ensure its reported performance measures results were accurate.

Specifically, the Board did not:

- Have updated policies and procedures for collecting, calculating, entering, and reporting data used for its performance measures.
- Conduct a secondary review of the calculations before the results were submitted to the ABEST Coordinator.

Recommendations

The Board should:

- Update its written policies and procedures for the data entry, calculation, and reporting of performance measures. All steps performed in the collection, calculation, review, and reporting of the performance measure data should be clearly documented.
- Implement a review process to verify the accuracy of the reported measure results before the information is reported to the ABEST Coordinator.

Management's Response

TALCB will develop and implement detailed written policies and procedures as prescribed above.

TALCB will implement a review process at the division level to verify the accuracy of the reported measure results before the information is reported to the ABEST Coordinator.

The Director of Licensing Services will be responsible for overseeing the implementation of the necessary corrective action, working closely with the Director of Technology Services with regard to programming changes.

Key Measures

Number of Complaints Resolved

Results: Inaccurate

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance.

This performance measure was inaccurate because the Board overstated its results by 6.72 percent in fiscal year 2006 and by 5.21 percent for the first three quarters of fiscal year 2007. The Board did not follow the methodology listed in ABEST, which caused it to report inaccurate results. Specifically, the Board included non-jurisdictional complaints—complaints that do not involve violations of the Appraiser Licensing and Certification Act and, therefore, for which the Board has no regulatory authority—in its performance measure calculations. The ABEST methodology states that “A complaint that, after preliminary investigation, is determined to be non-jurisdictional is not a resolved complaint.”

Auditors recalculated the measure results, excluding non-jurisdictional complaints. The recalculated result for this measure was 119 complaints resolved in fiscal year 2006, as compared to 127 resolved complaints that the Board reported in ABEST, a 6.72 percent overstatement. Auditors calculated that 96 complaints were resolved during the first three quarters of fiscal year 2007, as compared to 101 resolved complaints that the Board reported in ABEST, a 5.21 percent overstatement.

After auditors brought the calculation error to the Board’s attention, it revised its calculations for the Number of Complaints Resolved for each of the first three quarters of fiscal year 2007 so that the results did not include non-jurisdictional complaints. The Board reported these corrected results, along with a corrected fourth quarter result, in ABEST in October 2007. The revised numbers were not audited, but they appeared to be within 5 percent of the recalculations auditors performed.

Recommendations

The Board should:

- Ensure that this performance measure is calculated according to the methodology listed in ABEST.
- Work with the Legislative Budget Board and the Governor’s Office of Budget, Planning, and Policy to ensure the measure definition, methodology, and data source listed in ABEST align with the current operations of the Board.

Management's Response

TALCB will ensure that the performance measure is calculated based on the methodology in ABEST by excluding non-jurisdictional complaints from the calculation.

TALCB will work with the oversight agencies to ensure the measure definition is revised and clarified.

Non-jurisdictional complaints have been removed from the calculation.

Average Time for Complaint Resolution (Days)

This measure was inaccurate because the Board understated its results by 33 percent in fiscal year 2006 and by 31 percent for the first three quarters of 2007. The Board deviated from the measure methodology listed in ABEST in two ways: (1) It included non-jurisdictional cases in the calculation and (2) it based the average time on "working days" instead of "calendar days."

Results: Inaccurate

A measure is Inaccurate when the actual performance is not within 5 percent of reported performance.

Auditors recalculated the measure, excluding the non-jurisdictional complaints and using calendar days rather than working days. The recalculated result for this measure was an average time of 383 days for complaint resolution for fiscal year 2006, as compared to an average time of 255 days for complaint resolution that the Board reported in ABEST, a 33 percent understatement. Auditors calculated an average time of 401 days for complaint resolution during the first three quarters of fiscal year 2007, as compared to an average time of 275 days that the Board reported in ABEST, a 31 percent understatement.

The Board identified the calculation error related to working days and notified auditors during the audit. The Board revised its calculations for the Average Time for Complaint Resolution (Days) for the first three quarters of fiscal year 2007, and it reported these corrected results, along with a corrected fourth quarter result, in ABEST in October 2007. The revised numbers were not audited, but they appeared to be within 5 percent of the recalculations auditors performed.

Recommendations

The Board should:

- Ensure that the measure is calculated according to the methodology listed in ABEST.

- Work with the Legislative Budget Board and the Governor’s Office of Budget, Planning, and Policy to ensure the measure definition, methodology, and data source listed in ABEST align with the current operations of the Board.

Management’s Response

TALCB will ensure the measure is calculated according to the methodology listed in ABEST by excluding non-jurisdictional complaints and reporting based on calendar days, not working days.

TALCB will work with the oversight agencies to ensure the measure definition, methodology and data sources in ABEST align with Board operations.

The Director of Enforcement will be responsible for implementing corrective action.

Percent of Documented Complaints Resolved Within Six Months

This measure was inaccurate for fiscal year 2006 because the Board overstated its results by 26 percent. Although this measure is reported annually to ABEST, the Board calculates the annual total by summing the results that it calculated on a quarterly basis. However, these quarterly calculations are inaccurate. According to the Board’s written procedures, it calculates this measure each quarter by counting the total number of complaints resolved within the previous 180 days and then determining how many of these complaints were resolved within six months of the date the Board received the complaint. For example, for the second quarter of fiscal year 2006, the Board’s calculation included complaints resolved during the first two quarters of fiscal year 2006, instead of only the second quarter. Because the 180-day reporting period overlapped more than one quarter, this methodology resulted in some complaints potentially being reported in multiple quarters.

<p>Results: Inaccurate</p> <p>A measure is Inaccurate when the actual performance is not within 5 percent of reported performance.</p>

Also, the Board included non-jurisdictional cases in its calculation of the measure. Although neither the measure definition nor its methodology in ABEST explicitly excludes non-jurisdictional cases, the denominator for calculating this measure is the Number of Complaints Resolved, which is defined as excluding non-jurisdictional complaints (noted above).

Auditors recalculated the performance measure, excluding the double-counted complaints and the non-jurisdictional complaints. The recalculated result was 39 percent of documented complaints being resolved within six months during

fiscal year 2006, as compared to the 49 percent reported by the Board for the same time period in ABEST, a 26 percent overstatement.

Recommendations

The Board should:

- Ensure that the measure is calculated according to the definition.
- Work with the Legislative Budget Board and the Governor's Office of Budget, Planning and Policy to revise the measure definition, methodology, and data source to clarify which reporting period should be used, whether non-jurisdictional cases should be included, and specify from where the data should be gathered for the measure calculation.

Management's Response

TALCB will ensure that the measure is calculated according to the ABEST definition.

TALCB will work with the oversight agencies to revise and clarify the measure definition.

The Director of Enforcement will be responsible for implementing corrective action.

The Commission Should Improve Some Controls Over Its Licensing and Enforcement System and Other Automated Processes

General Information Technology Controls

The Commission had general information technology controls over the Texas Real Estate Licensing Information System (TRELIS), which the Commission uses for licensing and enforcement, and other automated systems. However, it should consider strengthening certain areas including: logical access controls, program change controls, disaster recovery, and physical security.

Specifically:

- There were some weaknesses in logical access controls, including password management.
- There was a lack of segregation of duties for making program changes to TRELIS.
- The Commission's disaster recovery plan is adequate; however, the Commission failed to test and update the plan annually, as required by Title 1, Texas Administrative Code, Section 202.24.
- Physical security appeared adequate; however, fire extinguishers were not inspected on an annual basis.

Auditors communicated details of these control weaknesses separately to the Commission.

Application Controls

TRELIS does not have adequate application controls to ensure the reliability and integrity of data used for calculating performance measures. This affects four of the seven measures audited.

The following weaknesses in application controls were identified:

- TRELIS does not have a data dictionary or a diagram of the data tables and the relationships between the data fields in the tables. The lack of a data dictionary is critical due to the limited number of staff with detailed knowledge of the system.
- Some fields in TRELIS have minimal controls to enforce data integrity, including the Social Security numbers of licensees.

Recommendations

The Commission should:

- Improve logical access controls to TRELIS and its data.
- Strengthen controls for program changes made to TRELIS.
- Test and update its disaster recovery plan.
- Ensure that fire extinguishers are tested annually.
- Develop documentation of TRELIS, including the relevant fields, tables, and their relationships.
- Improve the controls over key data fields in TRELIS, or develop compensating controls.

Management's Response

TREC will incorporate improvements to logical access controls as part of a new system development project.

TREC will develop a procedure to promote program changes within the constraints of available skills.

TREC will test and update its disaster recovery plan.

TREC has had fire extinguishers tested since the audit. Since TREC occupies leased space, this is the responsibility of the lessor. TREC will ensure that the lessor meets this obligation.

TREC will incorporate improvements to application documentation including relevant fields, tables and relationships as part of a new system development project.

Improved controls will be implemented as part of the new system development project. Additionally, the outcome from the writing of detailed policies and a review of process outlined in the sections discussing measures will improve compensating controls.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Real Estate Commission (Commission), including the Appraiser Licensing and Certification Board (Board), accurately reported selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Determine whether the Commission and Board have adequate control systems in place over the collection, calculation, and reporting of selected key performance measures.

Scope

The scope of this audit included (1) three key efficiency and two key output measures reported for fiscal year 2006 and the first three quarters of fiscal year 2007 and (2) two key outcome measure reported for fiscal year 2006. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance measure information to the original source when possible.

Methodology

The audit methodology included selecting key measures to audit, testing results for accuracy and conformity with measure definitions, and evaluating controls over performance measure procedures.

Auditors selected seven key measures reported in ABEST. The Commission and Board completed questionnaires related to its performance measurement processes to help identify preliminary control information.

Specific tests and procedures included:

- Auditing calculations for accuracy and to ensure that they were consistent with the methodology on which the Commission and the Legislative Budget Board agreed.
- Testing a sample of source documents to verify the accuracy of reported performance.

Project Information

Audit fieldwork was conducted from September 2007 through November 2007. This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for finding and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The following members of the State Auditor's staff performed the audit:

- Ann E. Karnes, CPA (Project Manager)
- Kelley I. Bellah
- Brian Jones
- Brian York
- Walton Persons, CPA (Quality Control Reviewer)
- J. Scott Killingsworth, CIA, CGFM, CGAP (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)

Overall Management Response

Management accepts the findings, agrees with the recommendations, will proceed as detailed herein to implement the recommendation, and believes that although the issues identified are significant, the report and the implementation of the needed changes should be undertaken with an understanding of how TREC and TALCB came to be handling these important matters in the manner identified in the audit process.

In responding, management believes that it is appropriate to begin by stating that although it acknowledges and accepts the problems identified in this process and the need for change, TREC staff had, for years, been proceeding on the belief that the procedures they were following to generate performance measures reports were in line with what the State Auditors Office, the Legislative Budget Board, and others wanted. The methodologies employed to generate these reports were scrupulously handed down as operating areas underwent staffing and management changes. The State Auditors Office had certified audited performance measure reports in 1998, and the internal auditors at TREC had looked at these measures as well.

This history notwithstanding, management agrees that changes are needed and as detailed more fully herein, is committed to taking the appropriate measures. As with all reported operating results, there are two inseparable parts to the story told: what the absolute numbers are and how they depict changes over time. Absolute numbers are either right or they are not. However, the tale told over time requires consistency. Even though the absolute data used in reporting may have been flawed, there was still value in its consistency. Management believes it is important as it goes through the changes necessary to address these audit findings to keep the need for consistency at the fore.

Management is in general agreement with the findings of the State Auditors Office and it is its overall plan to implement all recommended changes as follows:

- *communicate to the Legislative Budget Board staff and the Governor's staff the issues and problems noted but continue, for the time being, to report on substantially the same basis;*
- *work closely with the Legislative Budget Board staff and the Governor's staff as it develops detailed written descriptions of the definitions and methodology for calculating each measure;*
- *develop fully automated system-based tools to calculate the reported measures; and*

- *compile written, comprehensive standard operating procedures that will be maintained on a current basis to assure the orderly transfer of knowledge and adherence to the methodologies adopted.*

Management anticipates that these processes, although they will be begun promptly, will take until the third quarter of FY 2008 to complete, at which time management plans to shift to a new automated reporting system and restate results for fiscal year 2006 through fiscal year 2007. The chief reason for this anticipated delay relates to TREC's computer system, known as TRELIS. TRELIS is a "legacy" system, sufficiently old that knowledgeable programmers who can work on it are not readily available. TREC has been appropriated for FY 2009 the funds necessary to develop new systems using client server architecture and migrate TRELIS' data to a new environment. This entire process will be done incrementally, and the plan is to expedite the addressing of these issues – creation of reliable, automated performance measure reporting tools, to the top of TREC's list of programming priorities and to reallocate budget in FY 2008 to accommodate this while remaining within the agency's appropriation. Management strongly believes that rushing to resolve these issues by making programming changes on the current system, only to have it scrapped in the following year, would be an insupportable waste of limited resources. Even if limited financial resources were not an issue, the availability of qualified programmers would make this an unrealistic option.

Timelines for Implementation

Two practices were identified that were clearly incorrect, counting only business days and counting non-jurisdictional complaints in calculating TALCB's measures relating to the resolution of complaints. Both have been corrected.

The process of reviewing and documenting precise definitions and procedures, obtaining input and concurrence from the Governor's Office of Budgeting, Planning, and Policy and the staff of the Legislative Budget Board, will be accomplished for the measures that were the subject of the audit and will be undertaken promptly with anticipated completion by the end of February 2008. Additionally, management intends to undertake the same process for all reported measures, including non-key measures, with anticipated completion by the end of May 2008.

The necessary programming changes to effectuate these updated definitions and procedures should be completed and ready for implementation by the end of May 2008.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Real Estate Commission

Mr. John S. Walton, Jr., Chairman
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Mr. Troy C. Alley, Jr., Broker Member
Mr. Adrian A. Arriaga, CCIM, CIPS, Broker Member
Ms. Mary Frances Burleson, Broker Member
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